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PARLIAMENT AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE**

2007 ANNUAL IPA REPORT

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Introduction

Since 1 January 2007, EU pre-accession funding has been channelled through a single, unified instrument, the Instrument for Pre-accession Assistance (IPA) designed to deliver focused support to both candidate and potential candidate countries. IPA (Council Regulation No 1085/2006 of 17 July 2006) replaces the former pre-accession instruments Phare, ISPA, SAPARD, the Turkish pre-accession instrument, as well as the financial instrument for the Western Balkans, CARDS. The reference amount for IPA support in the period 2007-2013 is EUR 11,468 million.

IPA aims to provide targeted assistance to countries which are candidates or potential candidates for membership of the EU. In order to achieve each country's objectives in the most efficient way, IPA consists of five different components:

I. Transition Assistance and Institution Building, aimed at financing institution building measures and associated investment.

II. Cross-Border Co-operation (CBC), to support cross-border cooperation at borders between candidate/potential candidate countries and between them and the EU countries. It may also fund participation of beneficiary countries in Structural Funds' trans-national co-operation programmes and the European Neighbourhood and Partnership Instrument (ENPI) Sea Basins programmes, as appropriate.

III. Regional Development, which finances investments and associated technical assistance in areas such as transport, environment and regional competitiveness.

IV. Human Resources Development, designed to strengthen human capital and help combat exclusion.

V. Rural Development, which emulates post-accession Rural Development programmes by financing rural development-type measures, similar in nature to these programmes, though smaller in scale

Component I and II are open to all beneficiary countries. Components III, IV and V are open to candidate countries only, and are designed to mirror Structural, Cohesion and Rural Development funds in preparation for the management of such funds upon accession, through a learning by doing process. This requires that the country has the administrative capacities and structures to take responsibility for the management of assistance. For potential candidate countries, regional, human resources and rural development-type measures will be implemented through the Transition Assistance and Institution Building component.

This report deals with the implementation of IPA during the year 2007. Detailed information on the implementation and monitoring of IPA programmes on the ground, and on the assessment of results of such programmes, is somewhat limited in this report due to the fact that 2007 was the first year of IPA programming. The majority of programmes were adopted towards the end of the year and actual implementation will take place in 2008 onwards.

1. THE YEAR IN REVIEW

1.1. Main evolutions of the enlargement process

In 2007, progress was achieved on the basis of the renewed consensus on enlargement, as defined at the December 2006 European Council. 2007 began with the accession of Bulgaria and Romania. The year also saw a number of important developments in Turkey and the Western Balkans: progress in accession negotiations and the Stabilisation and Association process, the Kosovo status talks, and the launch of the new financial instrument, IPA.

On 6 November, the Commission presented its annual strategy paper, together with country progress reports and Accession/ European partnership proposals for the candidates/ potential candidates¹ and Kosovo under UNSCR 1244/99². The Commission's strategy paper confirmed the principles and objectives of the enlargement strategy. It drew attention to a number of significant challenges in the countries concerned. It stated that higher priority will be given from an early stage to basic governance issues, including institution-building, judicial and administrative reform and the prevention of organised crime and corruption. This approach is in line with the recommendations emerging from the DG's internal evaluation of public administration reform in the enlargement countries.

Accession negotiations with Croatia and Turkey continued to make progress. For Croatia, by December 2007, 16 chapters had been opened, two of which were provisionally closed. In Turkey's case six chapters were opened of which one has been closed. In line with the December 2006 Council conclusions, there are eight negotiation chapters which will not be opened until Turkey implements the Additional Protocol to the Association Agreement. DG Enlargement monitored the implementation of the Association Agreement with Turkey, and the Stabilisation and Association Agreements with Croatia and the former Yugoslav Republic of Macedonia. None of the three countries had made sufficient progress addressing the priorities which have been set.

On the other hand in 2007 Candidate Countries made significant progress in setting up structures and management systems for the implementation of IPA assistance under components III and IV, the precursors of structural funds. These structures will play a key role in the preparation and implementation of the Community's cohesion policy and its instruments upon accession, in a learning by doing process.

2007 saw progress towards the completion of Stabilisation and Association Agreements (SAA) with the countries of the Western Balkans. Albania continued the implementation of its Interim Agreement. An SAA with Montenegro was signed in October 2007. SAA negotiations with Serbia were resumed in June 2007 and led to the initialling of the SAA in November. An SAA with Bosnia and Herzegovina was initialled in December. The signature of these SAAs was conditional on the fulfilment of the relevant conditions.

Concerning the Western Balkans, the Commission continued to foster the Stabilisation and Association process and coordinate the implementation of the Thessaloniki agenda. By the

¹ Candidates: Croatia, former Yugoslav Republic of Macedonia, Turkey

² Potential candidates: Albania, Bosnia and Herzegovina, Montenegro, Serbia, United Nations Security Council Resolution 1244 of 10 June 1999.

end of 2007, visa facilitation and readmission agreements had been concluded with Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro and Serbia. The strategy paper announced the launch of a dialogue on the conditions for visa-free travel and the provision of further higher education scholarships for students from the region.

Kosovo status talks under the auspices of the Special Envoy of the UN Secretary General, Martti Ahtisaari, were concluded in 2007, but did not produce a final status settlement. The subsequent direct Kosovo status talks between the two parties mediated by a EU-US-Russia troika did not result in an agreement. The Commission continued to provide advice and support to the status process.

At the May summit of the South-East Europe Cooperation Process (SEEC) in Zagreb, the decision was taken to move towards regional ownership of the process of regional co-operation. The Stability Pact has largely accomplished its mission and is in the process of being replaced by a new Regional Cooperation Council (RCC) linked to the SEEC. A Secretary-General of the RCC has been appointed, and Sarajevo has been designated as the seat of its secretariat. In July, the new Central European Free Trade Agreement (CEFTA) entered into force.

2007 saw the successful launch of the new financial Instrument for Pre-accession Assistance, IPA. The commitments in financial assistance to candidate countries in 2007 amounted to EUR 497.2 million for Turkey, EUR 141.2 million for Croatia and EUR 58.5 million for the former Yugoslav Republic of Macedonia. Concerning the potential candidates, IPA allocations amounted to EUR 61.0 million for Albania, EUR 62.1 million for Bosnia and Herzegovina, EUR 68.9 million for Kosovo, EUR 31.4 million for Montenegro, and EUR 189.7 million for Serbia. A further amount of EUR 109.0 million was committed for regional cooperation and horizontal, multi-country programmes benefiting both the candidate and potential candidate countries

Communicating enlargement continued to be a priority. For the third anniversary of EU-10 enlargement on 1 May activities included: a special web section on the EUROPA web-site dedicated to case studies, a facts and figures section and a picture gallery; audiovisual material on Europe by Satellite; visits for journalists to three of the new Member States; and a series of seminars co-organised with Chambers of Commerce in seven Member States.

The Commission started work on a new Civil Society facility, which will focus on three areas of intervention: (i) support to local civic initiatives and capacity building; (ii) a people-to-people dialogue programme familiarising all types of stakeholders with EU policies, institutions and bodies, and; (iii) support to (international) partnership actions.

1.2. Main 2007 Council conclusions

The General Affairs and External Relations Council of December 2007 welcomed the enlargement strategy with the following conclusions on the 2007 enlargement strategy:

"In line with the enlargement strategy agreed by the December 2006 European Council and the Council conclusions of 11 December 2006, the Council welcomes the Commission's communication on the enlargement strategy and main challenges 2007-2008 of 6 November and takes good note of the analysis and recommendations contained therein. The renewed consensus on enlargement, which is based on consolidation of commitments, fair and rigorous conditionality and better communication, together with the capacity to integrate new

members, continues to form the basis of the EU's enlargement strategy. An improved quality of the enlargement process will ensure that enlargement continues to foster peace, democracy and stability throughout the continent and to bring concrete benefits in terms of increased trade, investment and economic growth.

Next year is crucial to further consolidate and implement the EU's enlargement strategy and support the transition process in the Western Balkans. The Council recalls various proposals made on this issue and that the future of the Western Balkans lies in the European Union. Against this background, the consistent implementation of the renewed consensus is more important than ever.

The Council reaffirms that the pace of the negotiations depends notably on the negotiating countries' progress in addressing opening and closing benchmarks as well as the requirements of the Negotiating Frameworks, including the implementation of the Accession Partnerships, currently in course of revision, with each country being judged on its own merits. The Council recalls that chapters for which technical preparations have been completed will be opened in accordance with established procedures, in line with the Negotiating Frameworks. In this context, the Council looks forward to the Intergovernmental Conferences with Turkey and Croatia later this month. It is also essential that the enlargement policy maintains fair and rigorous conditionality at all stages of the negotiations. In this regard the Council welcomes the Commission's intention to continue enhancing the quality of the enlargement process by tackling key priorities in areas of public administration and judicial reform and the fight against corruption at an early stage, by making full use of benchmarks and impact studies, and by bringing more transparency into the process. This will be instrumental for ensuring broad and sustained public support for the enlargement process."

The subsequent December 2007 European Council then went on to endorse these above conclusions:

"The European Council takes note of the communication from the Commission on the Enlargement Strategy and endorses the General Affairs and External Relations Council conclusions of 10 December."

2. PROGRAMMING AND IMPLEMENTATION OF IPA: GENERAL OVERVIEW

2.1. Strategic Planning & Programming

The annual enlargement package (Strategy Paper, Progress Reports, Accession or European Partnerships and Stability and Association Agreements) is presented each Autumn by the Commission to the Council and the Parliament and sets the overall strategic framework for the pre-accession process within which IPA must operate. The Multi-annual Indicative Financial Framework (MIFF) is also part of this package and translates the priorities defined within the political framework into financial terms for countries and components.

At the strategic planning level, Multi-annual Indicative Planning Documents (MIPDs) are established for each beneficiary country (with an additional MIPD covering the regional and multi-country programmes) by the European Commission in close consultation with the

countries concerned, covering all IPA components applicable to the country. They are established for a three-year rolling period, with annual reviews.

Finally, at the programming level, national authorities establish specific programmes by country and by component (for the cross-border component: joint programmes between two or more beneficiary countries and between them and neighbouring Member States) – or, in the case of the regional development component, by theme. The regional and horizontal programmes are proposed by the Commission.

2.1.1. Multi-annual Indicative Financial Framework (MIFF)

The MIFF is part of the annual enlargement package and it is designed to provide information on the indicative breakdown of the overall IPA envelope proposed by the Commission by country and by component for a three year rolling period. It acts as the link between the political framework within the enlargement package and the budgetary process. The MIFF is established and presented annually to the Council and the European Parliament, in accordance with Article 5 of IPA Regulation (EC) No 1085/2006.

The MIFF is based on a rolling three-year programming cycle. Under normal circumstances, a MIFF for years N, N+1 and N+2 is presented in the last quarter of year N-2 as part of the enlargement package, representing a proposed financial translation of the political priorities set out within the package itself, taking into consideration the Financial Framework. Due to delays in the agreement of a new Financial Framework for 2007-2013, as well as those in the adoption of the IPA Regulation, it was not possible to present a MIFF for 2007-2009 in this timeframe. The MIFF which covers 2008-2010, adopted in November 2007 was therefore the first MIFF under IPA and also updated the 2007 figures which were provided to Council and Parliament in the Commission's Preliminary Draft Budget 2007.

The following table provides the 2007 IPA allocations in million euros by country and by component, as well as for the regional and multi-country programmes as updated in the 2008-2010 MIFF (COM(2007)689 adopted on 6 November 2007).

| Component IPA | Albania | Bosnia & Herzegovina | Croatia | former Yugoslav Republic of Macedonia | Kosovo | Montenegro | Serbia | Turkey | Regional & Horizontal programmes |
|----------------------|-------------|----------------------|--------------|---------------------------------------|-------------|-------------|--------------|--------------|----------------------------------|
| Component I | 54.3 | 58.1 | 49.6 | 41.6 | 68.3 | 27.5 | 181.5 | 256.7 | 109.0 |
| Component II | 6.7 | 4.0 | 9.7 | 4.2 | | 3.9 | 8.2 | 2.1 | |
| Component III | | | 45.1 | 7.4 | | | | 167.5 | |
| Component IV | | | 11.4 | 3.2 | | | | 50.2 | |
| Component V | | | 25.5 | 2.1 | | | | 20.7 | |
| TOTAL | 61.0 | 62.1 | 141.2 | 58.5 | 68.3 | 31.4 | 189.7 | 497.2 | 109.0 |

2.1.2. Multi-annual Indicative Planning Documents (MIPDs)

Based on the MIFF allocations, and on the priorities identified within the political framework, MIPDs for each country and for the multi-beneficiary programmes are prepared. The MIPD represent the Commission's view of major areas of interventions and main priorities that the beneficiary country is expected to develop in detail in the programming documents.

The preparation of the first country-based MIPDs as well as multi-beneficiary MIPD covering 2007-2009 took place during 2006 and early 2007 under the responsibility of DG Enlargement's operational units, in cooperation with the DGs responsible for the relevant components. National authorities were consulted on the draft MIPDs and very closely involved in its preparation in order to ensure the ownership of the process. Concerning MIPDs for candidate countries, DGs Regional Policy, Employment, Social Affairs and Equal Opportunities and Agriculture and Rural Development were responsible for the drafting of the sections related to components III, IV and V respectively. Additionally, Member States, International Financial Institutions (IFIs) and other relevant stakeholders (civil society) were consulted during the preparation of the MIPDs.

All the 2007-2009 MIPDs were submitted for adoption to the IPA Management Committee in the first half of 2007.

2.1.3. Strategic Coherence Frameworks and multi-annual programming (Components III and IV)

In the case of components III and IV, a similar approach is followed as for Structural Funds. Strategic planning takes place within a 7 years framework (2007-2013), in the form of Strategic Coherence Frameworks (equivalent to National Strategic Reference Frameworks for Structural Funds), prepared by Candidate Countries. These documents set out a seven year strategy, constituting a reference document for the programming of IPA components III and IV. The Strategic Reference Frameworks are discussed with the Commission but remain national documents. The Strategic Coherence Frameworks for components III and IV were prepared by each Candidate Country and agreed with the Commission in the course of the first semester of 2007. Programming of components III and IV was then made through multi-annual programmes, prepared initially for three years, but which can be extended to cover additional years.

Stakeholders' consultation, partnership and coordination are overarching principles which guide the preparation and approval of the strategic coherence frameworks and multi-annual operational programmes under components III and IV. Good practices learned in these and other areas will be of key importance for the preparation and negotiation of similar strategic documents and multi-annual programmes for structural funds upon accession.

2.1.4. IPA Programmes

Annual or multi-annual programmes are designed in accordance with the relevant MIPDs. Component I is implemented through annual programmes while the other components are implemented through multi-annual programmes. Programmes are adopted by the Commission following consultation with the beneficiary countries and other stakeholders and after the positive opinion of the relevant Member States committees: IPA Management Committee for components I and II, COCOF for components III and IV, ESF committee for component IV and the Rural Development Committee for component V.

2.1.4.1. Component I

Component I assistance shall be programmed by the Commission in the form of annual national programmes or regional or horizontal programmes, managed either by the Commission, the beneficiary country or jointly with other donors, as appropriate. National programmes shall consist of financing proposals prepared by the Commission on the basis of project fiches submitted by the beneficiary country, or prepared by the Commission in the case of regional and horizontal programmes.

The implementation of projects in the areas of nuclear safety and radiation protection, education and customs were funded from the national allocations adopted in the MIFF but are being implemented centrally on a horizontal basis; the funding for these projects are therefore not included in the national programmes under component I. The table shows the contributions to these projects by country. More detail can be found in the country section of the technical annex.

| | Albania | Bosnia & Herzegovina | Croatia | former Yugoslav Republic of Macedonia | Kosovo | Montenegro | Serbia | Turkey | Regional |
|--|-------------|----------------------|-------------|---------------------------------------|-------------|-------------|--------------|--------------|--------------|
| <i>National Programme</i> | 49.3 | 49.7 | 45.4 | 34.9 | 62.0 | 23.9 | 164.8 | 256.2 | |
| <i>Allocations to Nuclear Safety, Customs and Education implemented horizontally</i> | 5.0 | 8.4 | 4.2 | 6.7 | 6.3 | 3.6 | 16.7 | 0.5 | |
| <i>Total Component I - TAIB</i> | 54.3 | 58.1 | 49.6 | 41.6 | 68.3 | 27.5 | 181.5 | 256.7 | 109.0 |

The IPA 2007 national programme for **Albania** was adopted by the Commission on 20 September 2007. The programme supports Albania to comply with the political criteria through support to the police mission PAMECA III and assistance to prepare the accreditation for decentralised management of EU funds. In the economic area, the programme supports the SME sector through a joint programme with the European Bank for Reconstruction and Development (EBRD). IPA 2007 also assists the country to align with the *acquis* through projects on statistics alignment, water management and support to the General Directorate of Tax of Albania.

The IPA 2007 national programme for **Bosnia and Herzegovina** was adopted by the Commission on 20 December 2007. The programme assists Bosnia and Herzegovina to comply with the political requirements of the Copenhagen criteria by supporting social inclusion and return, the rule of law, and public administration and constitution reform. Under the economic criteria, the programme will provide assistance to labour and economic development and to health and education. IPA assists the country to align with the *acquis* by supporting the establishment of regulatory systems in the financial sector, justice and home affairs, an improved quality infrastructure, energy and telecommunication as well statistics and information systems. IPA further assists the country by supporting agriculture and rural development, environment and transport sectors.

The IPA 2007 national programme for **Croatia** was adopted on 20 December 2007. Under the political criteria the programme will address the fight against corruption and will contribute to progress in the area of human rights and the protection of minorities. Under the economic criteria, the programme will contribute to the improvement of the business environment. The IPA 2007 projects in the area of ability to assume the obligations of membership focus on institutional and administrative capacity building for *acquis* transposition and implementation in the following chapters: competition policy, information society and media, agriculture, energy, social policy and employment, justice, freedom and security, environment, customs union.

Due to the urgent need to continue the support the police reform which began under the CARDS programme, it was decided to split the IPA 2007 national programme for the **former Yugoslav Republic of Macedonia** into two parts. The first part (for EUR 12 million) included projects linked to the police reform and a project preparation facility. The second part (EUR 22.94 million) was adopted by the Commission on 16 November 2007. This second part aims at supporting the implementation of the public administration reform strategy, the judicial reform as well as capacity building for the decentralised management of EU funds. Under socio-economic requirements the programme will assist municipalities with building the essential infrastructure to support both social and economic development. As regards *acquis* related activities, substantial support will be given to tax administration, the statistical office and customs. Additionally, the programme supports the participation of the country in certain Community programmes.

The **Montenegro** 2007 national programme was adopted by the Commission on 21 November 2007. Under political criteria, the programme supports civil society, the fight against organised crime and corruption and judiciary reform. Under socio-economic requirements, the programme supports the establishment of a national qualification framework, the development of the transport sector including the implementation of the European Common Aviation Agreement and energy market approximation. Under European standards, the programme includes projects on the following sub-sectors: legal harmonisation, veterinary services, statistical office MONSTAT, public procurement system, quality Infrastructure (standardisation and metrology) and tax administration.

The 2007 national programme for **Serbia** was adopted by the Commission on 20 December 2007. It aims at assisting Serbia to implement the reforms needed to fulfil EU requirements, make progress in the Stabilisation and Association Process and to lay the foundations for fulfilling the Copenhagen criteria. Under political criteria the programme provides assistance to the following projects: municipal support programme, support to refugees and internally displaced persons, improvement of the efficiency and transparency of the judicial system and of the penalty system, police reform, support to the establishment of the Ombudsman and the public procurement office as well as support to civil society. The 2007 annual programme places significant emphasis on socio-economic requirements with projects supporting regional economic and social development and health sector reform. Under European standards, the programme includes projects on customs and tax administrations, border controls and aviation standards, including the implementation of the European Common Aviation Area Agreement and capacity building to implement rural development policies.

The **Turkey** 2007 programme was adopted on 20 December 2007. Under political criteria, assistance will be provided to consolidate the reforms that have been adopted and to improve their implementation on the ground. This will include supporting institutions concerned by the reforms within the judiciary, the law enforcement services and parts of the public

administration. Assistance will also be given to promote women's rights, human rights and children rights. As concerns the adoption and implementation of the *acquis*, assistance will be concentrated on areas of activity with a large volume of legislation to be transposed and implemented as well as with high investment requirements. Under IPA 2007, these areas are: justice, liberty and security (particularly border management; and migration and visa policy); environment; and, to a lesser extent, food safety and customs and taxation. Assistance will also be provided to ensure alignment and institution building in the areas of energy, financial control, fisheries, the internal market, social policy and employment, statistics, transport. Priority issues to be addressed under civil society dialogue in 2007 are culture and arts, and fisheries and agriculture. Continuing well-established forms of assistance, support is provided for Turkey's participation in Community programmes and agencies as well as in the Jean Monnet scholarship programme.

The IPA annual programme for **Kosovo** under component I was adopted by the Commission on 28 November 2007. Under political requirements, the programme focuses on the fulfilment of the EU's political criteria and the consolidation of Kosovo's institutional, administrative and judicial set-up. This includes the fight against corruption, the protection of human and minority rights and the promotion of civil society activities. Under socio-economic Requirements the programme will focus on enhancing Kosovo's investment climate and support to small and medium enterprises, promoting rural development, developing infrastructure and improving the quality of the education system. Finally under European standards, the programme addresses the need to build effective institutional capacity especially in public procurement, food safety and veterinary services and standards in the energy sector.

The **multi-beneficiary programme** is designed to complement the national programmes and to strengthen multi-lateral experiences in the Western Balkans and Turkey. It provides support through regional and horizontal programmes. Activities of particular importance under the 2007 programme include support to regional cooperation initiatives, the Regional School of Public Administration, interim civilian administrations, civil society dialogue and development, education and youth programmes (Tempus, Erasmus Mundus and Youth in Action), international financing institutions, and customs and taxation.

2.1.4.2. Component II

The cross-border cooperation (CBC) component is aimed at strengthening cross-border cooperation through joint local and regional initiatives, combining both external aid and economic and social cohesion objectives. In particular, the cooperation shall pursue the promotion of sustainable economic and social development in border areas, working together to address common challenges in fields such as environment, natural and cultural heritage, public health and the fight against organised crime, ensuring efficient and secure borders and the promotion of joint small scale actions involving local actors from the border regions. Cross-border cooperation helps reconciliation and good neighbourly relations, while also facilitating the integration of the beneficiary countries into the EU. This is particularly relevant in a region with a recent history of conflict.

IPA component II cross-border cooperation encompasses two strands: cross-border cooperation between candidate/potential candidate countries and cross-border cooperation between them and neighbouring Member States. Additionally, IPA component II may also financially support the participation of candidate/potential candidate countries in Structural Funds' transnational cooperation programmes (financed by the European Regional

Development Fund - ERDF, in the context of the European Territorial Cooperation objective) and in ENPI Sea-Basin cooperation programmes.

Assistance to cross-border cooperation under component II takes place within the framework of multi-annual cross-border programmes jointly drawn up by the participating countries. IPA assistance is granted through annual financing decisions, except for cross-border programmes with member States implemented under the integrated approach, where the whole EU contribution for the programme is adopted through multi-annual financing decisions covering three years. Concerning the participation in ERDF transnational programmes or ENPI Sea-Basin programmes, IPA assistance is granted through annual financing decisions on a country-by-country basis. The final 2007 appropriations per country under IPA component II are specified in section 2.1.1.

IPA component II supports the participation of **Albania** in two bilateral cross-border programmes with neighbouring candidate/potential candidate countries: Montenegro and the former Yugoslav Republic of Macedonia. With regards to cross-border cooperation with Member States, IPA component II finances a bilateral programme Albania-Greece and the participation of Albania in the multilateral cross-border programme "Adriatic", where Albania, Bosnia and Herzegovina, Croatia, Montenegro and Serbia cooperate with Greece, Italy and Slovenia across the Adriatic Sea. Moreover, IPA component II also finances a unilateral programme concerning the development of the Kukes region of Albania, bordering Kosovo, as well as the participation of Albania in the ERDF transnational programme "South-East Europe".

With regards to **Bosnia and Herzegovina**, IPA component II supports the participation of the country in three bilateral cross-border programmes with Croatia, Montenegro and Serbia. Concerning CBC with Member States, IPA component II finances the participation of Bosnia and Herzegovina in the IPA CBC Adriatic programme. Finally, in 2007 the IPA component II finances the participation of Bosnia and Herzegovina in the ERDF transnational programme "South-East Europe".

Under IPA component II, **Croatia** participates in three bilateral cross-border programmes with neighbouring potential candidate countries: Bosnia and Herzegovina, Montenegro and Serbia. Croatia is also involved in three IPA CBC programmes with neighbouring Member States: two bilateral programmes respectively with Slovenia and Hungary, and participation in the multilateral cross-border programme IPA CBC Adriatic. Finally, IPA component II finances the participation of Croatia in two ERDF transnational programmes "South-East Europe" and "Mediterranean".

With the support of IPA component II, in 2007 the **former Yugoslav Republic of Macedonia** participates in a bilateral programme with Albania and in two bilateral programmes with neighbouring Member States Bulgaria and Greece. IPA component II also finances the participation of the former Yugoslav Republic of Macedonia in the ERDF European Territorial Co-operation transnational programme "South-East Europe".

IPA component II in **Montenegro** consists in four bilateral cross-border programmes with its candidate and potential candidate neighbours Croatia, Serbia, Bosnia and Herzegovina and Albania, as well as the participation in the IPA CBC Adriatic programme with Member States. Concerning participation in the ERDF transnational programmes, IPA component II finances the participation of Montenegro in the "South-East Europe" and in the "Mediterranean" programmes.

The CBC programmes in **Serbia** include three bilateral programmes with Montenegro, Croatia and Bosnia and Herzegovina, three bilateral programmes with the neighbouring Member States Hungary, Romania and Bulgaria, and the participation of Serbia in the multilateral IPA cross-border "Adriatic" programme. Moreover, IPA component II finance as the participation of Serbia in the ERDF European Territorial Cooperation transnational programme "South-East Europe".

In 2007, IPA component II supported the cross-border programme between **Turkey** and Bulgaria. Additionally, IPA component II funds have been granted to Turkey in 2007 for the participation in the ENPI Sea Basin programme.

2.1.4.3. Components III, IV and V

Programming of components III and IV is made through multi-annual programmes, prepared initially for three years, but which can be extended to cover additional years. On the basis of the Strategic Coherence Frameworks, beneficiary candidate countries draft multi-annual operational programmes per component (component IV) or per theme (component III), in consultation with the relevant stakeholders, which are then agreed with the Commission for formal adoption, following the consultation of the relevant Member States Committee: Coordination Committee for the funds (COCOF) for component III and COCOF and European Social Fund (ESF) Committee for component IV.

Component III covers three distinct areas of assistance: transport and environment which mirror Cohesion Fund interventions in Member States, and regional competitiveness which covers some areas of assistance as under the competitiveness and employment objective of the European Regional Development Fund. Component III will thus be implemented through separate programmes covering each of these themes (in the case of the former Yugoslav Republic of Macedonia, for 2007-2009 only one programme for environment and transport will be implemented). This implied three separate process of negotiation and adoption of the programmes per country, with similar repercussions for the conferral of decentralised management as described hereunder.

Similarly to Structural Funds, multi-annual programmes under components III and IV provide a stable financial framework over a three year period. This is fundamental for the implementation of medium term investment strategies in transport, environment, regional competitiveness and human resources development. Similarly to Structural Funds, this longer term financial framework goes hand in hand with rigorous financial management, to ensure the full absorption of funds which might otherwise be lost due to the automatic decommitment rule (N+3) established by the Financial Regulation. In accordance with the MIPDs, the following resources were available for programming under multi-annual programmes for components III, IV and V:

| Component /year | Croatia | | | | former Yugoslav Republic of Macedonia | | | | Turkey | | | |
|-----------------|---------|------|------|-------|---------------------------------------|------|------|-------|--------|-------|-------|-------|
| | 2007 | 2008 | 2009 | Total | 2007 | 2008 | 2009 | Total | 2007 | 2008 | 2009 | Total |
| Component III | 45.1 | 47.6 | 49.7 | 142.4 | 7.4 | 12.3 | 20.8 | 40.5 | 167.5 | 173.8 | 182.7 | 524.0 |
| Component IV | 11.4 | 12.7 | 14.2 | 38.3 | 3.2 | 6.0 | 7.1 | 16.3 | 50.2 | 52.9 | 55.6 | 158.7 |
| Component V | 25.5 | 25.6 | 25.8 | 76.9 | 2.1 | 6.7 | 10.2 | 19.0 | 20.7 | 53.0 | 85.5 | 159.2 |

Three multi-annual (2007–2009) operational programmes (OP) were adopted in 2007 under *component III* for **Croatia**, following the positive opinion of the COCOF Committee (October 2007). The programmes cover acquis-related investments in environmental protection (waste water, drinking water and waste management) and sustainable transport (railways and inland waterways). Along with these efforts directed at basic infrastructure, further assistance is aimed at modernising and restructuring the productive capacity of disadvantaged regions in particular by providing services to enterprises, particularly small and medium sized.

The multi-annual OP for Croatia *component IV* was adopted on 7 December 2007. It consists of 4 priority axes: "Enhancing access to employment and sustainable inclusion in the labour market", "Reinforcing social inclusion of people at a disadvantage", "Enhancing human capital and employability", and Technical Assistance.

The multi-annual programme for Rural Development 2007–2013 for Croatia was prepared, although not adopted during 2007 (adopted by Commission Decision on 25 February 2008). It consists of 3 priority axes: "Improving market efficiency and implementation of Community standards", "Preparatory actions for implementation of the agri-environmental measures and local rural development strategies" and "Development of the rural economy".

The **former Yugoslav Republic of Macedonia** *component III* OP "Regional Development" for 2007-2009 was adopted by the Commission on 29 November 2007. Its overall objective is to support the sustainable development of the country through the improvement of transport and environment infrastructure. Assistance in the transport sector focuses on the continuation of the development of the South East Europe Core Regional Transport Network. Concerning assistance in the environment sector, clearly targeted investments focus on waste water treatment and solid waste management where the impact to the population and natural environment is the greatest.

Concerning *component IV* in the former Yugoslav Republic of Macedonia, the OP "Human Resources Development" was adopted on December 2007. It encompasses three priority axis: "Employment – Attracting and retaining more people in employment", Education and Training – Investing in human capital through better education and skills", and "Social Inclusion – Promoting an inclusive labour market".

The former Yugoslav Republic of Macedonia multi-annual programme for Rural Development 2007-2013 was prepared but not adopted during 2007 (adopted by Commission Decision C(2008)677 on 25 February 2008). It consists of three priority axes: "Improving market efficiency and implementation of Community standards", "Preparatory actions for implementation of the agri-environmental measures and local rural development strategies" and "Development of the rural economy".

Turkey's *component III* OPs were adopted by Commission Decision on 29 November 2007 (OPs Regional Competitiveness and Environment) and on 7 December 2007 (OP Transport). The overall objective of the "Transport" programme is to increase the competitiveness of Turkey by supporting investments in transport infrastructure sector. In this framework the scope of the intervention in Turkey will cover transport infrastructure, including in particular interconnection, interoperability and intermodality of national networks and with the trans-European networks. The "Environment" programme objective is to increase the competitiveness of Turkey by supporting investments in environment infrastructure sector, in particular in water supply, sewerage and waste water treatment and in intergraded waste management. The overall objective of the "Regional Competitiveness" programme is to

increase the competitiveness of the poorest regions of Turkey by supporting enterprises. This objective will be achieved through four specific objectives: enhancement of physical and financial infrastructure, increasing business stock, increasing employment creation capacity of the productive sector and enhancing the added value of the production base.

The Turkey *component IV* Human Resources Development multi-annual OP was adopted by Commission decision on 7 December 2007. It includes four priority axis: "Employment", "Education", "Adaptability by Promoting Lifelong Learning" and "Social Inclusion".

Under component V the multi-annual programme for Rural Development 2007-2013 was prepared by Turkey in 2007. It was adopted by Commission Decision C(2008)691 on the 25 February 2008. It consists of three priority axis: "Improving market efficiency and implementing Community Standards", "Preparatory actions for the implementation of agri-environmental measures and Leader approach", "Development of the rural economy".

2.2. Implementation Modalities and Structures

The central point of IPA is to transfer know-how and experience to beneficiary countries, by enhancing ownership and responsibility of the implementation of assistance on the countries' side. On the other hand, IPA components III and IV aim to prepare Candidate Countries for the implementation and management of the Community's cohesion policy and its instruments upon accession. They contribute therefore to set up structures and systems which will ensure the proper management and absorption of structural funds implemented through shared management, through a process of learning by doing. The benefits of these must be regarded therefore in a long term perspective, beyond the life of current IPA programmes.

During the lifetime of the instrument, it is therefore expected that decentralised management – i.e. national authorities of beneficiary countries assuming full ownership in programming and implementation – should become the norm in the management of IPA. The prompt achievement of this objective will depend on the administrative capacities of individual recipient countries, and on their capacity to ensure that the appropriate management and control systems are in place. This means that each country should therefore have specific strategies, action plans and timetables in place for moving towards more decentralisation, while at the same time preparing national authorities to have adequate capacity for the increased responsibilities related to this.

2007 annual programmes for **potential candidate** countries under components I and II (with the exclusion of CBC programmes with Member States implemented in shared management) are implemented mostly on a centralised basis, with a clear focus on assisting countries to gradually taking on more responsibility and in progressing towards decentralised management. This means that the programmes are mainly implemented either by the Commission Delegation (centralised de-concentrated management) or by the Commission services at Headquarters (essentially multi-beneficiary and horizontal programmes).

Regarding preparations for the conferral of management powers, potential candidate countries are at various stages and some of them have already started setting up the necessary management structures and have prepared their roadmap toward decentralised management. Albania adopted in December a decision setting up the structures and defining the roles for decentralised management. Montenegro has established the roadmap to decentralised management and foresees to be accredited in three years time. In Serbia, a strategy for

decentralised management has been produced and it is planned to prepare capacity building plans for decentralised management institutions during 2008.

For **candidate countries**, decentralised management initially with Commission ex-ante control is the norm but the objective is decentralised management without *ex-ante* controls. During 2007, Croatia and Turkey underwent preparation for moving from DIS accreditation granted under the previous pre-accession instruments to the IPA accreditation and conferral of decentralised management powers. In 2007, the former Yugoslav Republic of Macedonia also prepared for IPA decentralised management accreditation.

IPA accreditation for decentralised management has to be obtained separately for each component, or in the case of component III for each programme. The timing for the attainment of this objective may vary depending on the IPA component and on the capacities of the beneficiary country. For Croatia and Turkey, it is expected that IPA accreditation for decentralised management will take place before the end of 2008 (Croatia) or beginning of 2009 (Turkey). For the former Yugoslav Republic of Macedonia, this objective should be achieved in the first half of 2009. However, considering that the former Yugoslav Republic of Macedonia was not DIS accredited under the pre-IPA instruments, in an initial phase implementation of components I and II can be carried out on a centralised basis until the relevant national authorities obtain the relevant IPA accreditations. On the other hand, implementation for components III, IV and V is subject to the prior accreditation. To be noted that component V assistance can only be implemented through decentralised management without ex-ante controls.

For all candidate countries, the medium term objective is fully decentralised management, i.e. with Commission ex-post control only.

The **Multi-beneficiary programmes** are managed through centralised and joint management. Centralised management is mainly in the form of implementation by the Commission services at Headquarters. Joint management is complementary to the central management in that the Commission is managing the funds jointly with an international organisation.

3. MONITORING AND RESULTS

3.1. Monitoring

The overall objective of monitoring is to enhance the relevance, effectiveness, efficiency, impact and sustainability of the assistance to the Western Balkans and Turkey. Monitoring provides the Commission with regular analytical assessments of implementation of projects and programmes.

In the case of **decentralised management**, the beneficiary country shall set up an IPA monitoring committee to ensure coherence and coordination in the implementation of the IPA components. The IPA monitoring committee shall satisfy itself to the overall effectiveness, quality and coherence of the implementation of all programmes and operations towards meeting the objectives set out in the financings agreements as well as in the multi-annual indicative planning documents. The IPA monitoring committee shall include among its members representatives of the Commission, the national IPA co-ordinator, the national authorising officer, representatives of the programmes' operating structures and the strategic co-ordinator for components III and IV, and shall meet at least once a year.

The IPA monitoring committee is assisted by sectoral monitoring committees set up under each IPA component or programme. The sectoral monitoring committees have a duty to ensure the overall effectiveness and quality of implementation of the programmes concerned and report to the IPA committee. They provide it in particular with information relating to the progress made in implementing the programmes, including the results achieved, financial implementation indicators, and other factors and shall be established with a view to improving the implementation of the programmes.

No formal monitoring committees took place in 2007, as the first IPA programmes were only adopted in the end of 2007 and implementation had not yet started. However, Sectoral Monitoring Committees regarding each programme under components I, III, IV and V took place in November and December 2007 in a "shadow form" pending the signature of the framework agreements and financing agreements concerned. The formal set up of sectoral and IPA monitoring committees in Croatia, Turkey and the former Yugoslav Republic of Macedonia is expected in the spring 2008.

In the case of programmes under **centralised or joint** management, the IPA implementing regulation stipulates that the Commission may undertake any actions it deems necessary to monitor the programmes concerned. No monitoring of IPA projects was carried out during 2007, as the IPA 2007 programmes were generally only adopted at the end of the year and the actual implementation only started in 2008.

3.2. Evaluation Results

Evaluations shall aim to improve the quality, effectiveness and consistency of the assistance from Community funds and the strategy and implementation of the programmes. MIPDs shall be subject to regular *ex ante* evaluation, carried out by the Commission.

Programmes shall be subject to *ex ante* evaluations, as well as interim and, where relevant, *ex post* evaluations in accordance with the specific provisions laid down under each IPA component in the Commission Regulation (EC) No 718/2007. During the period of implementation of a programme, at least one *interim evaluation* shall be carried out, and specifically when the monitoring of the programme reveals significant departure from the goals initially set. *Ex post* evaluation of the implementation of assistance shall be the responsibility of the Commission. *Ex post* evaluation shall include identifiable IPA component-specific results. In the event of joint management, *ex post* evaluation may be jointly carried out with other donors.

During 2007 multi-annual operational programmes under components III and IV were subject to ex-ante evaluations carried out in accordance with Structural Funds guidelines and requirements, forming an integrant part of the process for the adoption of the programmes. Likewise all adopted operational programmes under component V were the object of an ex-ante evaluation.

No other interim or ex-post evaluation was carried out during 2007 as the first IPA programmes were only adopted at the end of 2007 and the actual implementation is only starting in 2008.

4. DONOR COORDINATION WITH MEMBER STATES AND BILATERAL DONORS

Prior to adopting the multi-annual programmes under components III and IV, the Commission organised meetings in each candidate country, with Member States' representatives and IFIs, to present the programmes strategies and priorities and to collect the views of the other donors. These meetings were of particular importance where programmes or actions financed by Member States and IFIs are complementary with programmes or actions financed by IPA, or where co-financing will be necessary to implement certain projects.

On the 13 December 2007, a donor co-ordination meeting was organised with EU and non-EU donors, in which the IFIs participated as observers. The purpose of the meeting was to share information on priorities and activities of donors in the IPA beneficiary countries and to look for complementary action and synergies. It was one element in the context of the IPA requirements to strengthen coordination among donors. The common goal is to increase effectiveness and efficiency in the delivery of the assistance to candidate and potential candidate countries, by improving complementarity and avoiding duplications.

The main conclusions of the donor co-ordination meeting were the following:

- enhanced donor coordination is a priority on the agenda of the donor community. In particular, the meeting has proved that coordination between the Commission, EU Member States and non-EU donors, to be effective, must be a two-way process, where stakeholders discuss their respective programmes and priorities;
- substantial progress on donor coordination has been achieved both in the beneficiary countries and on the European level. The feedback received in the meeting underlines that the consultation process in the context of IPA – in particular at local level in the beneficiary countries – which has been put in place in the course of 2007, is working increasingly better;
- ownership of assistance by beneficiary countries is vital in order to maximize the impact of aid. Donor coordination shall be ultimately the responsibility of authorities of beneficiary countries, although the donor community shall provide guidance and assistance in this respect. To this aim, the capacities of the beneficiary countries to assume ownership needs to be strengthened.

5. CO-ORDINATION WITH THE EIB AND IFIS

International Financial Institutions (IFIs) have been instrumental in providing access to finance to candidate and potential candidate countries and territories and have allowed them to start carry out necessary investments. At the same time the Beneficiaries have been obliged to adopt prudent fiscal and monetary policies to maintain economic growth. Today this leads to a situation where investment needs are still high while the Beneficiaries' capacities to incur an ever increasing external debt are moving towards a ceiling. Non-repayable grants both from the EU and from other donors including the Member States combined with International Financial Institutions loans have become a crucial resource for private sector development, investments in energy efficiency, and infrastructure remediation and upgrading without overburdening the Beneficiaries with excessive debts.

The Commission is committed to closer coordination with the EIB, the EBRD, the CEB and other IFIs supporting modernisation and development in the Western Balkans. The second meeting of the IFI Advisory Group, which is linked to the implementation of the Memorandum of Understanding signed with the IFIs in mid-2006, was scheduled for January 2008. Technical Working Group meetings were established for Transport and Energy (September 2007) and Environment (October 2007). A first meeting for the Social sector was not possible in 2007 but was held in January 2008. A two-day IFI coordination meeting with participants of all major IFIs, DG Enlargement geographical teams and Delegations as well as line DGs was held on 10-11 December 2007.

Furthermore, the Commission, the EIB, the EBRD and the Council of Europe Development Bank have committed to establish a Western Balkans Investment Framework by 2010 with other IFIs and donors to further enhance harmonisation and cooperation in investments for socio-economic development in the region.

Significant efforts were also made during 2007 to identify a coordination strategy with IFIs. In particular, it was agreed to focus on three priority areas: micro-, small and medium-sized enterprises (SMEs), energy efficiency and infrastructure. The reasons for cooperating with International Financial Institutions and the reasons for using the regional approach in the years to come are further explained below for each strand:

- *Strand I - Private sector development:* On the supply side, EU assistance to promote access to finance for micro and small-sized enterprises has been channelled to the region in the past through numerous individual agreements with various International Financial Institutions. In 2005 a regional multi-donor initiative was inaugurated – the European Fund for South East Europe (EFSE). It led to the consolidation of the numerous micro-credit agreements throughout the region into one single instrument, it has provided sustainability to previous funding and it has led to management efficiency gains. The most striking feature of EFSE is the fact that the risk cover of the EU and Member State contribution is set to attract private capital to invest in micro-lending. EFSE has so far been rolled out successfully.
- *Strand II – Energy efficiency:* This strand aims to promote investments in energy efficiency and renewable energy in the SME and public sectors by capitalising on actions supported by the National programmes, which aim at (i) increasing public awareness regarding energy efficiency and the potential for energy savings; (ii) implementing legislation with regards to the Directive on energy performance of building³ and the energy end-use efficiency and energy services⁴ (including renewable energy). Furthermore, the promotion of energy efficiency investments meets the recommendation of the European Commission Green Paper on Energy Efficiency⁵ encouraging International Financial Institutions to provide long-term funding to finance energy efficiency investments.
- *Strand III – Promotion of infrastructure investments:* Adequate infrastructure networks and services in the transport, energy, environment and social sectors are crucial in ensuring sustained socio-economic development and stability in the region.

³ Directive 2002/91/EC of the European Parliament and of the Council of 16 December 2002

⁴ Directive 2006/32/EC of the European Parliament and of the Council on energy end-use efficiency and energy services of 5 April 2006

⁵ Doing more with less: Green Paper on energy efficiency. COM(2005) 265 final of 22 June 2005

Insufficient financial resources and lack of experience of Beneficiaries in preparing projects suitable for consideration by International Financial Institutions and other donors for financing are among the key factors hindering improvements in infrastructure. Adequate investment in infrastructure is essential in ensuring that many indispensable services such as water and sanitation, heating, energy provision, transport, health and education come into existence in order to improve the living conditions of people. For all of this, access to finance is essential. The implementation of this strand will thus include the setting up of a multi-sector multi-beneficiary Infrastructure Projects Facility, which will support Beneficiary institutions at national, regional and municipal level to prepare and implement infrastructure investment projects financed by International Financial Institutions and or other donors. This Facility will help cooperation and coordination with International Financial Institutions, reach economies of scale in mobilising the necessary technical expertise to prepare and support infrastructure investment projects, facilitate networking and exchange of know-how among Beneficiaries, and leverage International Financial Institutions loans that complement national IPA grants. In this context, the promotion of infrastructure investment must be coordinated and developed in a coherent manner so as to take into account the sub-regional context (i.e. neighbouring countries, in particular the Neighbourhood region).